

Canada's Upscale Seafood Processing Industry Nets U.S. Catch

Each year, Canada's growing seafood industry is relying more on imports. In 2002, these imports are expected to have reached nearly 600,000 metric tons, according to official Canadian government statistics, with the United States being the single largest supplier of all Canadian imported seafood—38 percent by volume and 45 percent by value.

Canada's seafood industry has evolved as a result of the vast access to cold water fish provided by more than 240,000 kilometers (1 kilometer = 0.6214 mile) of coastline. The country's fishing fleet is harvesting far more than its citizens can consume. So why would Canada still need imports?

Since seafood has to be processed quickly to avoid spoilage, Canada has developed a disproportionately large processing infrastructure that can handle seasonal peaks, as well as perform efficiently enough to export.

With this excess capability, Canada's demand for fish and seafood has become processor-driven, with imports serving to keep the processing plants operating when domestic supply is reduced. Also, with only a limited home market to satisfy, Canada has built export markets for a mix of products skewed toward more expensive fish and seafood species and value-added items.

Canada's Domestic Catch

Canada's domestic seafood harvest is growing about 3 percent annually and in 2002 is expected to have reached nearly 1.25 million tons, worth about \$2 billion. Shellfish, including lobster, dominate the harvest in both tons and dollars. Close to 58 percent of the domestic catch is in shellfish.



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Canada's Atlantic fishing fleet accounts for about 80 percent of the country's seafood harvest, by weight, while Pacific fisheries pull in 16 percent and the landlocked provinces supply 4 percent.

The Pacific catch has been declining about 5.2 percent a year since 1997, primarily because of regulatory actions to prevent over-fishing. The Atlantic catch has been increasing about 5.7 percent a year, reflecting a recovery from previous over-fishing and the development of an aquaculture industry producing salmon, shellfish and freshwater fish.

Shellfish, Fish Meal Top Imports

By weight, here's the breakdown on top categories of Canadian imports:

- Fresh and frozen shellfish—22 percent
- Fish meal, derived from fish that has been cooked, pressed (if oil isn't desired), dried and ground up—22 percent
- Whole fresh or frozen dressed fish—17.3 percent (fresh fish products growing almost 14 percent and frozen declining 12 percent yearly)
- Fish oil and canned fish products—16 percent

The fastest growing imports by weight are pickled and cured fish.

By value, shellfish imports far outweigh other major categories:

- Fresh or frozen shellfish—44 percent of total import value (growing about 10 percent a year)
- Whole fresh or frozen dressed fish—20

percent (fresh growing nearly 18 percent a year, but frozen declining 4.5 percent a year)

- Canned fish products—9 percent of import value (increasing about 6 percent a year)

The fastest growing import categories by value are pickled and cured fish imports (up 245 percent), fish oil (46 percent) and fresh fish filets (42 percent).

Food Service Outsells Retail Stores

Canada's domestic market for seafood products is valued at around \$4.1 billion. Food service accounts for about two-thirds of the market, with retail store sales making up most of the balance.

The average Canadian consumes about 11 kilograms of fish a year (1 kg. = 2.2046 pounds): fresh and frozen ocean fish (46 percent), processed ocean fish (25 percent), shellfish (27 percent) and freshwater fish (2 percent).

Canadian Standards Familiar

Most Canadian standards are simply common sense and resemble those of U.S. processors.

Some useful facts:

- All imports must meet Canadian quality standards and labeling regulations.
- Canadian importers must have fish import licenses.
- Importers must provide the Canadian Food Inspection Agency (CFIA) with written notification of each shipment.
- Fees are levied on each shipment based on weight and type of import license held by importer; shipments may be inspected.
- Importers are invoiced for all inspection fees monthly.
- The CFIA monitors and regulates imports.

Canadian Processors Claim Most U.S. Fish and Seafood

	Further Processing	Domestic Consumption	Industrial Use	Total
<i>Metric tons</i>				
Ocean fish, fresh and frozen	60,283	15,139	0	75,422
Ocean fish, processed	10,660	41,100	0	51,760
Shellfish	30,717	14,286	0	45,003
Fish, fresh water	0	816	0	816
Other	0	0	58,888	58,888
Total	101,660	71,341	58,888	231,889

Source: Canadian estimates of 2002 U.S. supply distribution.

With the exception of lobster, which is more likely to be consumed domestically, 80 percent of U.S. fish exports to Canada are fed straight into the seafood industry hopper. Most processed fish are re-exported.

Favorites From the United States

Whole fish. Most of the fresh or frozen cod that Canada imports comes from the United States. So do fresh or frozen salmon, frozen tuna, fresh herring and fresh halibut. The demand for cod and fresh herring is declining, but there has been a dramatic increase in demand for fresh and frozen salmon and fresh halibut.

Filets, steaks. Fresh and frozen filets and steaks from the United States, with sales surpassing \$44 million in 2001, took up about 15 percent of the domestic market. In 2002, demand for fresh filets is expected to have increased 18 percent; frozen filets are expected to be up 12.2 percent.

Fish sticks, portions. More than 50 percent of the fish sticks and prepared fish meals eaten in Canada originate in the United States. Imports of U.S. fish sticks, at \$3.8 million in 2001, are expected to be flat or decline while prepared meals, with

sales of \$25 million in 2001, are expected to have increased by 5 percent in 2002.

Fresh, frozen shellfish. Frozen shellfish (excluding lobster) imported from the United States account for 15 percent by weight of domestic consumption. Exporters from the United States have captured more than 80 percent of the import market (with U.S. sales valued at \$42.2 million in 2001) for fresh crab, fresh and frozen oysters, fresh scallops, fresh mussels and live mollusks. Demand for fresh crab and scallops is expected to increase, while demand for oysters and frozen scallops will decline.

Already at 70 percent of the shellfish market, imports of frozen shrimp and prawns are expected to have grown 13 percent in 2002. So far, the United States claims only 5 percent of this lucrative import market, though there is opportunity to capture market share from Thailand and other competitors.

Canned seafood. Nearly 30 percent (\$73.86 million) of the canned seafood products consumed in Canada are sourced from the United States. Salmon, shrimp and prawns represent 90 percent of the volume consumed, with salmon being the dominant product.

Cured seafood. About 30 percent of all cured seafood consumed by Canadians is salt cod from the United States. However, the fastest growing category is dried cod, where U.S. exporters have only about a 5-percent share.

Food Service Has Higher Profits

The structure of Canada's food distribution system is such that, given the explosion of new products, private labels and low profit margins, as much as 25-35 percent of all retailers bypass wholesalers to import directly.

The food service sector is less structured in Canada than in the United States. Canadians eat fewer meals in restaurants and have not gravitated much toward convenience foods at home.

However, food service margins are higher, as much as double those for retail. And with food service outlets outnumbering retail grocery outlets five to one, there are more profitable selling opportunities for processors in this sector. Food service also offers more possibilities for non-traditional arrangements, such as direct contracts with end-users and product trials that do not involve slotting fees.

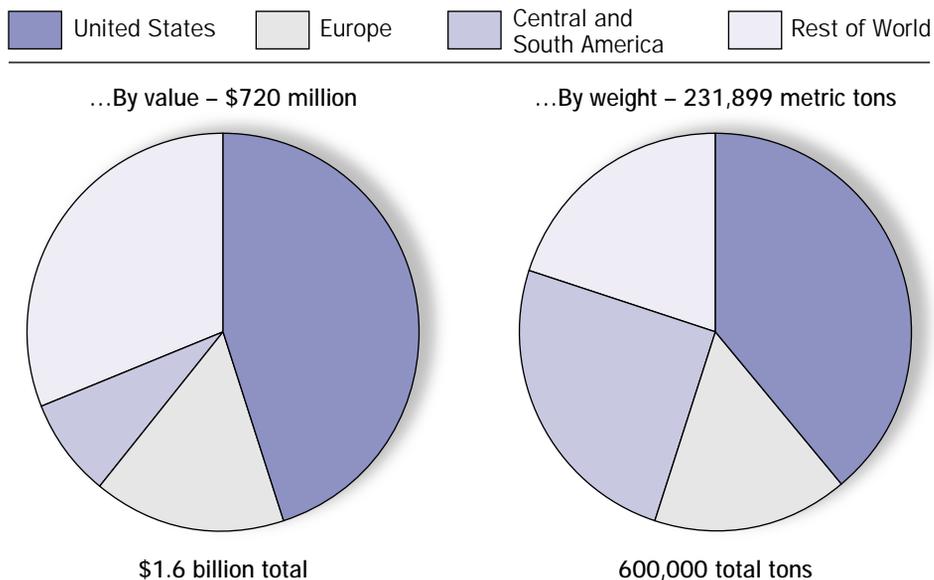
Where To Start

The new-to-market exporter can try market entry at several points. First, suppliers must determine whether to channel to retail or food service, then target selected cities or regions.

If your focus is basic processing, introduce your product into the marketing channel domestic groups use. Have a representative dockside where "clearing house" participants buy products.

Another option is to enter the distribution system at the wholesale level, one step removed from retail. But the better

In 2002, the United States Led in Fish and Seafood Exports to Canada



profit margins gained through eliminating intermediaries might be at the expense of volume sales.

For companies that manufacture processed fish products such as fish sticks or canned seafood, the most successful method might be to establish a subsidiary or an agent in Canada. Often, it is more practical to have a Canadian entity handle packaging from bulk product to make sure that bilingual and disclosure requirements are met.

Whatever the mode of entry, there is homework to be done:

- Research past product history—gather statistical information on past sales volume and pricing.
- Determine new product appeal to ascertain marketability.
- Establish volume, timing and price forecast, considering extra costs for packaging, shipping and marketing.
- Talk with end-users to learn their preferences for intermediaries.

Though U.S. companies are already supplying 45 percent of the value of fish and seafood products to Canada each year, new exporters should be prepared to encounter lower prices and slimmer margins. ■

This report was prepared by L.B.C. International Consulting Services and FAS staff. Further information about this market can be obtained from the FAS Office of Agricultural Affairs at the U.S. Embassy, Ottawa, Canada. Tel.: (1-613) 688-5267; Fax: (1-613) 688-3124; E-mail: usagr@istar.ca

For details, see FAS Report CA2078. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

